1982/1983 Annual Report

British Columbia Petroleum Corporation

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British Columbia Petroleum Corporation

Letter of Transmittal

To Colonel the Honourable
Henry P. Bell-Irving, D.S.O., O.B.E., E.D.,
Lieutenant-Governor
of the Province of British Columbia

MAY IT PLEASE YOUR HONOUR:

I have the pleasure to submit the Annual Report of the British Columbia Petroleum Corporation for the year ended March 31, 1983.

Stephen Rogers,
Minister of Energy, Mines and
Petroleum Resources,
Province of British Columbia.

The Corporation

The British Columbia Petroleum Corporation was established on November 8, 1973, as an agency of the Crown, under the Petroleum Corporation Act. The primary function of the Corporation is to market the natural gas produced in British Columbia by purchasing gas from producers and selling it to Westcoast Transmission Company Limited, under an agreement dated November 13, 1973.

Under this agreement, Westcoast Transmission Company Limited novated all its British Columbia gas purchase contracts to the Corporation while retaining the functions of gathering, processing and transporting the gas and selling it to the various domestic utilities and to its U.S. customer, Northwest Pipeline Corporation. Westcoast retains from the proceeds of gas sales its cost of service, including a return on its rate base, and remits the balance of the proceeds to the Corporation, which in turn deducts the payment to the producers and its administrative costs, and remits the net amount to the Provincial Treasury. Under this arrangement, producers are not required to pay royalties or the costs of processing and transporting gas.

Since the Corporation negotiates directly with producers for the purchase of gas, it ensures the development of British Columbia's natural gas resources in a manner consistent with provincial government policy. The Corporation is the owner of all sulphur and natural gas liquids extracted during the processing of raw gas and is also responsible for selling these by-products.

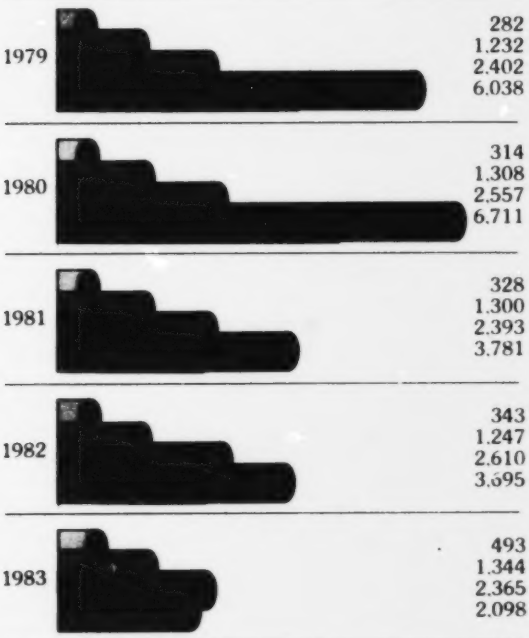
Report of the Directors

The performance of the Corporation was severely affected during the year by the continuing deterioration of the United States market for Canadian natural gas. Sales volumes were the lowest in the Corporation's history and net income was the lowest since 1974/1975. British Columbia gas is exported to the U.S. Pacific Northwest only, where extremely difficult marketing conditions caused Northwest Pipeline Corporation, the U.S. importer, to take considerably less gas than the previous year, resulting in an annual load factor of only 26.3 percent, the lowest ratio of actual to authorised sales of any of the major Canadian export licenses.

Total sales declined by 15 percent from the previous year to 5.745 billion cubic metres with export sales experiencing a reduction of 41 percent to 1.458 billion cubic metres. Domestic sales remained almost unchanged for the year. Substantially increased sales by Pacific Northern Gas resulting from the operation of Ocelot Industries Ltd.'s new methanol plant at Kitimat were offset by reduced sales to British Columbia Hydro and Power Authority caused by the effect of the recession on its industrial customers and the experience of the warmest winter for many years.

In May 1982, the government released Dr. George Govier's report entitled "Commissioner Inquiry on British Columbia's Requirements, Supply and Surplus of Natural Gas and Natural Gas Liquids." The report confirmed that British Columbia's domestic requirements and export commitments were fully protected by established reserves of 240 billion cubic metres of marketable gas and that, in fact, a surplus of 60 billion cubic metres existed. As a result of this assessment of the province's natural gas resource, the Government of British Columbia was able to proceed with and complete the distribution of the surplus through its Natural Gas Allocation Process. Through this program, the Government was able to analyse a number of major industrial proposals it had received, each of which required a significant amount of natural gas.

Natural Gas Sales
(in millions of cubic metres)



The Government decided to allocate the surplus natural gas to three projects: Dome Petroleum Ltd.'s Western LNG project, the continuation beyond 1989 of natural gas exports to the United States by Westcoast Transmission Company Limited, and an ammonia/urea project. The timing of these decisions coincided with the start of Phase II and III of the National Energy Board's Gas Export Omnibus Hearing in July, 1982 which

was to determine, from a national standpoint, the amount of surplus natural gas in Canada and its disposition. In January, 1983, the National Energy Board issued its decision and one of the successful applicants was Dome Petroleum Ltd. which received a conditional export license for its Western LNG project. It further decided to issue two new licenses to Westcoast Transmission Company Limited; however, the future of one of these is doubtful as the prospective importers, Northwest Pipeline Corporation, Texas Eastern Transmission Corporation and Transwestern Pipeline Company, subsequently withdrew their applications which had been submitted to the U.S. regulatory authorities for approval. The collapse of this off-line sale by Northwest Pipeline Corporation to Texas Eastern and Transwestern and the decision of the National Energy Board to grant Westcoast a new license to October 31,1992 only, instead of 1997, as allowed for in the B.C. Natural Gas Allocation Process, increased the amount of gas which remains surplus after the Allocation Process.

PROVINCE OF BRITISH COLUMBIA

Natural Gas Liquids Sales

(cubic metres)

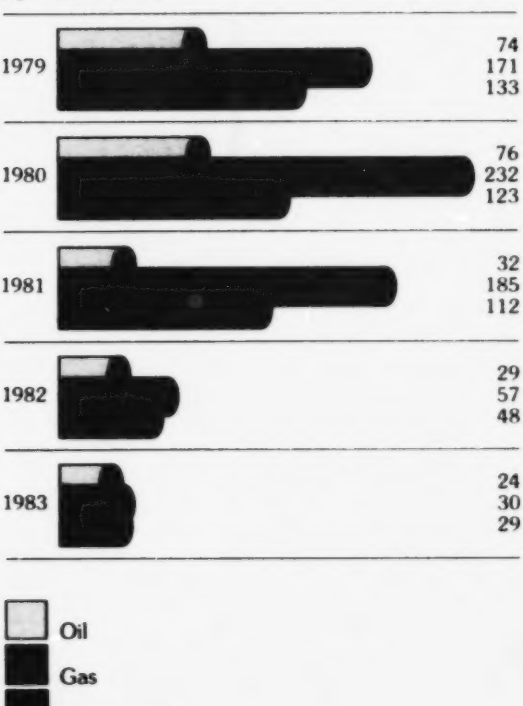
YEARS ENDED MARCH 31	
1979	278,691
1980	310,355
1981	237,926
1982	246,923
1983	228,177

In summary, the existing established natural gas resource of the province provides security of supply to both the present commitments and to accepted future projects with

substantial supplies in reserve. It is unfortunate that the marketing conditions presently prevailing have restricted, for the third consecutive year, the Corporation's ability to purchase new gas or to help in the development of unconnected supplies or new producing areas. In fact, the problem of reduced United States demand for Canadian gas which was once unique to the Westcoast export license deriving supplies from British Columbia is now affecting Alberta exporters and is of national concern.

PROVINCE OF BRITISH COLUMIA

Wells Completed
(by classification)



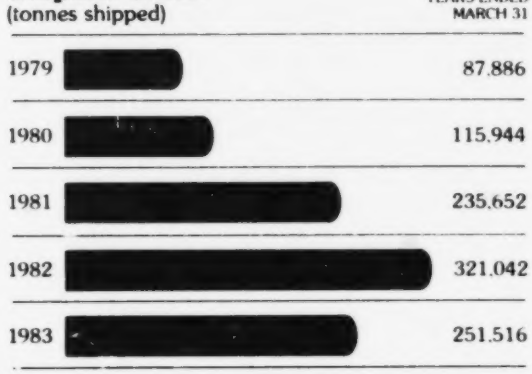
In recognition of the decline in the world oil price and the resulting effect on gas prices, the Canadian Government has, effective April 12, 1983, reduced the Canada/U.S.A. border price to (U.S.) $4.10 from (U.S.) $4.60/GJ

and is also studying, in conjunction with the producing provinces and the natural gas industry, an incentive pricing scheme to help United States distributors to recapture lost markets. As a consequence of declining export sales, the Corporation has, for calendar year 1982, accumulated an additional 558 million cubic metres of deficiency gas. This brings the amount of gas which the Corporation has been obliged to purchase from producers but could not sell to 1.33 billion cubic metres. In addition, there remains 751 million cubic metres of 1980 deficiency volumes which the Corporation has not paid for but which it has committed to take by 1991 at the price then prevailing. The results of the first three months of 1983 indicate that further substantial volumes of deficiency gas will also be acquired during calendar year 1983.

PROVINCE OF BRITISH COLUMBIA

Sulphur Sales

(tonnes shipped)

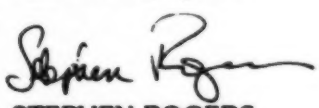


The growth of earnings experienced in previous years from by-product sales was not sustained during 1982/1983. Income from sulphur sales declined on a volume that was 22 percent lower than that of the previous year. Several factors combined to exert severe pressure on prices: these include the slack world economy, an increase in supplies to the world's markets and a lower demand for fertilizer because of depressed farm incomes.

Volume sales of natural gas liquids declined eight percent but showed an increase of ten percent in income due mainly to the higher prices for condensate provided by the Canada/ British Columbia Energy Agreement. Towards the end of the year, however, some difficulty was experienced in marketing condensate because of lower petroleum product sales and high gasoline inventories. The Corporation implemented short-term measures to reduce the production of liquids.

The environment in which the natural gas industry operates is likely to remain difficult over the short term. However, the initiatives which have been taken by the Government of British Columbia to widen the use of natural gas and to encourage the development of the province's rich energy resource base allows the Corporation to look ahead with confidence.

The Board of Directors wishes to thank the Corporation's staff for their contribution and dedication throughout this past difficult and uncertain year.



STEPHEN ROGERS
Chairman

Natural Gas Prices

The monthly deemed value of gas purchased by the Corporation and the price paid for old and new gas during the year are shown below:

	DEEMED VALUE	PRICE PAID FOR OLD GAS	PRICE PAID FOR NEW GAS
1982	$/10³m³	$/10³m³	$/10³m³
April	75.3579	47.1079	59.5667
May	44.6247	32.3560	44.8148
June	18.1438	19.6451	32.1039
July	33.2371	26.8899	39.3487
August	28.0784	24.4137	36.8725
September	54.0720	36.8907	49.3495
October	72.2422	45.6124	58.0712
November	74.4488	46.6715	59.1303
December	90.4890	54.3708	66.8296
1983			
January	83.1563	50.8511	63.3099
February	54.9426	37.3085	49.7673
March	47.9120	33.9339	46.3927

The current prices paid to producers are based on a formula which was first introduced in 1977 and revised, with minor amendments, during the year 1981/1982. Under this formula, the Corporation pays producers a base price of $45.6824 per thousand cubic metres for old gas and $57.7951 per thousand cubic metres for new gas, plus 48 percent of the difference between the actual deemed value in a month, (as calculated under S69 (8) of the Income Tax Act) and $88.2500, plus a rebate of $7.6137 and $7.9598 per thousand cubic metres for old and new gas respectively. The formula is reproduced below:

Old Gas = $45.6824 + 48%
(deemed value − $88.2500) + $7.6137

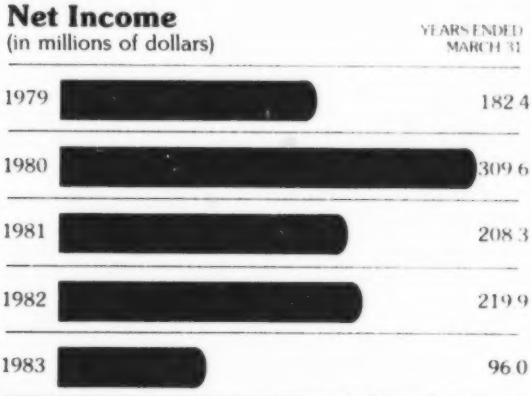
New Gas = $57.7951 + 48%
(deemed value − $88.2500) + $7.9598

In general, gas produced from pools which flowed prior to November 14, 1973, qualifies as "old" gas and gas produced from pools flowing after that date qualifies as "new" gas.

Financial Review

The Corporation's net income for the year under review amounted to $96,048,923 which was 56.3 percent lower than the net income of $219,922,383 recorded in the previous year. This reduction reflects the low volume of exports to the United States, the reasons for which have been described in the Report of the Directors. Export volumes which peaked in the year ended March 31, 1980, have declined steadily since that date and it is not anticipated that this trend will be reversed in the forthcoming year.

Net Income
(in millions of dollars)



The low volume of sales resulted in the Corporation's inability to take its minimum annual volume of gas as required under its contracts with gas producers. As a result, the Corporation was required to pay for a volume of 558,379.9 thousand cubic metres of deficiency gas in 1982. At March 31, 1983, the Corporation's total payments for deficiency gas amounted to $65,532,757.

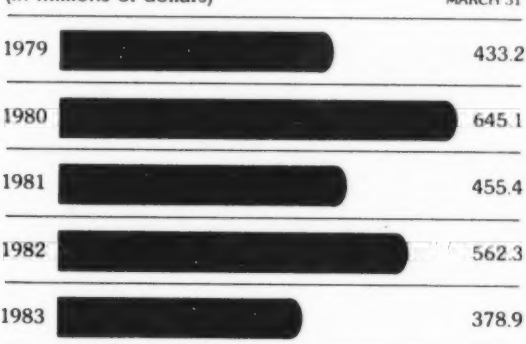
The cost of service paid to Westcoast Transmission Company Limited for the gathering, processing and transportation of gas produced in the province amounted to $261,262,000 which was $20,138,000 higher than the cost of $241,124,000 incurred in the previous fiscal year. On December 1, 1982, Westcoast applied to the National Energy Board for an increase in its allowed rate of return, included in its cost of service. This application was heard by the Board in April and May, 1983,

and a decision is expected to be announced within a few months of the end of the hearing.

In line with the reduced sales volume, the volume of gas purchases reached a record low. The cost of gas and by-products purchased amounted to $283,782,617 compared with $349,148,791 in the year ended March 31, 1982. Under the formula for the pricing of gas purchased from the producers in the province, any reduction in the deemed fair market value of the gas, as calculated under S69 (8) of the Income Tax Act, has the effect of reducing the price paid to producers. With the decline in the export revenues, the average deemed fair market value for the year was lower than in the previous year. As a result, the average price paid to producers for gas in the current year amounted to $47.4343 per thousand cubic metres compared with $50.2375 a year earlier.

In April, 1982, British Columbia Gas Corporation, a subsidiary company of the Corporation, was established to sell natural gas to Ocelot Industries Ltd. for use in its methanol plant at Kitimat, B.C. Gas is sold under a long-term contract signed in August, 1981. The first gas sold under this contract flowed in June, 1982. In the year ended March 31, 1982, the net income of British Columbia Gas Corporation amounted to $4,457,474.

Revenue
(in millions of dollars)



Consolidated Balance Sheet

March 31, 1983

ASSETS

Current assets

Cash .....

Accounts receivable .....

Prepaid expenses .....

Prepaid gas (Note 2) .....

Property account (Note 3) .....

Deferred charges .....

LIABILITIES AND RETAINED EARNINGS

Current liabilities

Accounts payable and accrued charges .....

Liability for future gas supply (Note 4) .....

Long-term debt (Note 5) .....

Retained earnings .....

Commitments (Note 6)

Approved by the Directors:

Director

Director

See accompanying notes to consolidated financial statements.

1983	1982
$ 32,670,810	$ 9,648,709
30,457,693	55,528,214
3,799	2,447,305
63,132,302	67,624,228
65,532,757	34,634,188
256,481	288,068
299,506	127,844
$129,221,046	$102, 674, 328

$ 24,326,513	$ 40,414,609
14,533,618	5,358,515
30,000,000	—
60,360,915	56,901,204
$129,221,046	$102,674,328

Consolidated Statement of Income and Retained Earnings

Year ended March 31, 1983

Revenue

Sales from natural gas, natural gas liquids and sulphur .....

Expenses

Gas and by-product purchases .....

Administrative and general expenses .....

Income from operations .....

Other income .....

Net income .....

Retained earnings at beginning of year ....

Deduct: Transfers to Provincial Treasury ..

Retained earnings at end of year .....

See accompanying notes to consolidated financial statements.

1983	1982
$378,872,860	$562,269,686
283,782,617	349,148,791
1,474,423	1,426,957
285,257,040	350,575,748
93,615,820	211,693,938
2,433,103	8,228,445
96,048,923	219,922,383
56,901,204	41,978,821
152,950,127	261,901,204
92,589,212	205,000,000
$ 60,360,915	$ 56,901,204

Consolidated Statement of Changes in Financial Position

Year ended March 31, 1983

Source of funds

Operations

Net income .....

Add items not involving outlay of funds:

Depreciation and amortization .....

Loss on disposal of fixed assets .....

Proceeds from disposal of fixed assets .....

Mortgages and other deferred charges .....

Long-term debt (net) .....

Payment on future gas supply .....

Application of funds

Prepaid gas .....

Property additions .....

Transfers to Provincial Treasury .....

Increase (decrease) in working capital ....

Working capital at beginning of year .....

Working capital at end of year .....

See accompanying notes to consolidated financial statements.

1983	1982
$ 96,048,923	$219,922,383
59,316	48,552
—	102
96,108,239	219,971,037
—	2,350
40,473	9,703
29,787,865	—
9,175,103	5,358,515
135,111,680	225,341,605
30,898,569	33,910,954
27,729	14,453
92,589,212	205,000,000
123,515,510	238,925,407
11,596,170	(13,583,802)
27,209,619	40,793,421
$ 38,805,789	$ 27,209,619

Notes to the Consolidated Financial Statements

March 31, 1983

Note 1 Summary of Significant Accounting Policies

CONSOLIDATION

The consolidated financial statements include the accounts of the Corporation and its subsidiary, British Columbia Gas Corporation.

GAS SALES

Under the terms of an agreement between Westcoast Transmission Company Limited and British Columbia Petroleum Corporation effective November 1, 1973, the Corporation sells natural gas to Westcoast Transmission Company Limited at a price equal to the gross revenue received by that Company on the resale thereof less the total cost of service of that Company's utility system operation.

DEPRECIATION

Furniture, equipment, automobiles and leasehold improvements are recorded at cost and depreciation is provided at rates considered adequate to amortize the cost over the service lives of the assets. Depreciation is computed on a straight-line basis.

Note 2 Prepaid Gas

Under its gas purchase contracts with producers, the Corporation is obligated to purchase and take delivery of, or pay for a specified minimum annual volume of gas. In 1982, the Corporation was unable to take delivery of the minimum volume of gas and is, therefore, liable to pay for the resulting shortfall (deficiency gas). The Corporation is entitled to take delivery of deficiency gas over a period of ten years, with an adjustment for the prices prevailing when such gas is delivered. At March 31, 1983, the Corporation's deficiency gas amounted to $65,532,757.

Note 3 Property Account

	Cost	Accumulated Depreciation & Amortization	1983 Net Book Value	1982 Net Book Value
Furniture	$233,148	$ 97,512	$135,636	$138,107
Automobiles	32,294	19,994	12,300	20,377
Leasehold improvements	211,309	102,764	108,545	129,584
	$476,751	$220,270	$256,481	$288,068

Note 4 Liability for Future Gas Supply

Liability for future gas supply represents payments for deficiency gas incurred by a distributor in 1981 and 1982. Such deficiency gas volumes may be recovered from the Corporation within five years from the date incurred without further payment.

Note 5 Long-Term Debt

On March 31, 1983 the Corporation issued $30,000,000 11¾% Notes, due in 1988, which are unconditionally guaranteed as to principal and interest by the Province of British Columbia.

Note 6 Commitments

(1) Under agreements with producers which waive the Corporation's liability to pay for deficiency gas incurred in 1980, the Corporation is committed to purchase and take delivery of, or pay for, a specified volume of such gas in each year to 1991. At March 31, 1983, the Corporation's aggregate liability under these agreements was estimated at approximately $29,776,000.

(2) The Corporation has commitments under agreements for the lease of office premises extending to 1984. The aggregate rentals payable under leases amounted to approximately $191,000 at March 31, 1983.

Auditors' Report

To the Lieutenant-Governor in Council,
Province of British Columbia:

We have examined the consolidated balance sheet of British Columbia Petroleum Corporation as at March 31, 1983 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of British Columbia Petroleum Corporation as at March 31, 1983 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Wolrige, Mahon & Company

Wolrige, Mahon & Company,
Chartered Accountants
900 West Hastings Street,
Vancouver, B.C. V6C 1W4
May 31, 1983.

Five-Year Summary

YEAR ENDED MARCH 31	1983
Volumes	
Domestic sales — (10^3m^3)	**4,287,164**
— (Mcf)	**151,341,010**
Export sales — (10^3m^3)	**1,458,000**
— (Mcf)	**51,468,793**
Sulphur sales — tonnes shipped	**251,516**
Natural gas liquids — (m^3)	**228,177**
Average Selling Price of Gas	
Domestic — $ per 10^3m^3	**69.3503**
— $ per Mcf	**1.9645**
Export — $ per 10^3m^3	**221.2415**
— $ per Mcf	**6.2673**
Average Purchase Price of Gas	
Old gas — $ per 10^3m^3	**42.0536**
— $ per Mcf	**1.2151**
New gas — $ per 10^3m^3	**53.8178**
— $ per Mcf	**1.5551**
Financial Statistics *(thousands of dollars)*	
Revenue:	
Gas and by-product sales	**$378,873**
Expenses:	
Gas and by-product purchases	**283,783**
Administrative and general expenses	**1,474**
	285,257
Income from operations	**93,616**
Other income	**2,433**
NET INCOME	**$ 96,049**

1982	1981	1980	1979
4,283,565	4,093,999	4,252,966	3,989,958
151,213,971	144,522,117	150,133,790	140,849,361
2,464,017	2,411,307	4,746,046	4,059,569
86,982,174	85,121,456	167,539,986	143,306,680
321,042	235,652	115,944	87,886
246,923	237,926	310,355	278,691
58.1420	41.4221	41.1892	41.3621
1.6470	1.1734	1.1668	1.1717
215.8722	195.1684	128.5379	91.4083
6.1152	5.5287	3.6412	2.5894
45.1660	32.4350	32.1334	27.4371
1.3051	0.9372	0.9285	0.7928
56.8414	40.6557	40.9307	35.9749
1.6424	1.1748	1.1827	1.0395
$562,270	$455,380	$645,104	$433,195
349,149	247,168	335,920	251,517
1,427	1,542	1,100	1,421
350,576	248,710	337,020	252,938
211,694	206,670	308,084	180,257
8,228	1,656	1,560	2,148
$219,922	$208,326	$309,644	$182,405

Corporate Information

Directors

Honourable Stephen Rogers
Minister of Energy, Mines & Petroleum Resources
Chairman of the Board

Leonard G. Mulholland
Vice-Chairman of the Board

Honourable Patrick L. McGeer
Minister of Universities, Science & Communications

Donald W. Rawlyk

Senior Personnel:

Donald W. Rawlyk
General Manager & Manager, Natural Gas Division

Sidney T. Akers
Manager, Gas Supply & Special Projects

Gordon S. Thomas, *Comptroller*

Bruna M. Martinuzzi, *Corporate Secretary*

Leonard D. Anderson, *Chief Geologist*

J. Brian Williston, *Chief Engineer*

Neil C. Beaton, *Contracts Administrator*

Gordon A. Pearson, *Assistant Comptroller*

Corporate Offices:

1199 West Hastings Street, 6th Floor
Vancouver, B.C. V6E 3T5
Telephone (604) 685-0411 Telex 04-54530

Legal Advisors:

Davis & Company
1030 West Georgia Street
Vancouver, B.C. V6E 3C2

Auditors:

Wolrige, Mahon & Company
900 West Hastings Street
Vancouver, B.C. V6C 1W4

POOR

QUALITY

ORIGINAL